

Consumer Confidence Dropped in February; Inflation Expectations Surged

- The Conference Board's Consumer Confidence Index slid 7 points to 98.3 in February; the lowest since June 2024.
- The decline was broad-based with decreases in the Expectations and Present Situation Indexes.
- Average 12-month ahead inflation expectations surged to 6.0% in February from 5.2% in January.
- The surge in inflation expectations supports the case for the FOMC to leave the fed funds rate unchanged in March; PNC is forecasting two 25-basis points cuts this year.

The Conference Board's Consumer Confidence Index dropped 7 points to 98.3 in February. This was below PNC's forecast of 100.0 and the lowest level since June 2024. The largest monthly decline since August 2021 was broad-based with the Expectations Index – which is based on consumers' outlook for income, business, and labor market conditions – plunging 9.3 points to 72.9, also the lowest since mid-2024. The Present Situation Index fell a more modest 3.4 points to 136.5.

Of the five components of the Index, only consumers' assessment of present business conditions improved, while views of current labor market conditions deteriorated. Consumers became pessimistic about future business conditions and less optimistic about future income, while pessimism about future employment prospects reached a ten-month high. February's decrease in confidence occurred across all age groups but was most pronounced for consumers between the ages of 35 and 55. Moreover, the decline was fairly broad-based among income groups, with the only exceptions being households earning less than \$15,000 a year and those earning between \$100,000 and \$125,000.

Buying plans were mixed. On a six-month moving average basis, purchasing plans for homes improved – possibly due to the recent modest drop in mortgage rates – while buying plans for cars and big-ticket items deteriorated. In a worrisome development for the Federal Open Market Committee (FOMC), average 12-month ahead inflation expectations surged to 6.0% in February from 5.2% in January. The surge in inflation expectations is likely due to the possibility of tariffs by the Trump Administration, which dominated the written responses in the survey.

The surge in year ahead inflation expectations in February – which is consistent with data from the February University of Michigan Consumer Sentiment Survey – supports the case for the FOMC to remain on hold in March. Nonetheless, PNC is expecting two 25-basis point cuts in the fed funds rate this year, bringing the fed funds rate down to a range of 3.75%-4.00%.

PNC Economics

Jay Hawkins, Senior Economist

economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.